Global Blockchain Business Council (GBBC): Response to FCA CP25/14 –Stablecoin Issuance and Cryptoasset Custody

About us:

Global Blockchain Business Council (GBBC) is the trusted non-profit association for the blockchain, digital assets, and emerging technology community. Founded in 2017 in Davos, Switzerland, GBBC comprises more than 500 institutional members and 284 Ambassadors across 124 jurisdictions and disciplines.

GBBC furthers adoption of blockchain and emerging technologies by engaging regulators, business leaders, and global changemakers to harness these transformative tools for more secure and functional societies.

GBBC industry verticals: Financial Services, Global Commerce/Supply Chain, and Commodities, underpinned by AI, digital identity, governance, hardware, infrastructure, policy, regulation, and security.

GBBC initiatives: BITA Standards Council (BITA), Food for Crisis, Global Standards Mapping Initiative (GSMI), International Journal of Blockchain Law (IJBL), InterWork Alliance (IWA), and U.S. Blockchain Coalition (USBC).

General remarks

GBBC welcomes the opportunity to respond to the FCA's Consultation Paper CP25/14 on stablecoin issuance and custody. We are grateful for the FCA's engagement with the industry to date and for its continued commitment to establishing a proportionate, future-facing regulatory framework for cryptoassets in the UK.

This response reflects the consolidated feedback of GBBC's UK policy working group. Participants included representatives from regulated financial institutions, exchanges, stablecoin issuers, legal advisors, and technology providers.

While GBBC supports the FCA's core objectives — including robust consumer protection, orderly redemption, and sound reserve management the regime must also provide the framework for innovation, competition and growth for firms to locate and grow their business in the UK. The totality of this proposed regime together with the prudential requirements make this an exceptionally challenging business case for firms to be authorised and undertake their business activity from the UK and the consequence is a lack of alignment with the. Government's growth objectives.

The following high-level challenges should be considered by the FCA:

1. **Regime uncertainty and institutional boundaries**

   It remains unclear whether a given stablecoin issuer would fall under the Bank of England's systemic regime or the FCA's non-systemic framework. This ongoing jurisdictional ambiguity complicates strategic and operational planning — particularly regarding the nature of backing assets (central bank reserves vs. financial instruments) and custodial arrangements. A clearer articulation of regulatory boundaries and transition triggers would assist firms in developing sustainable models under both regimes.

2. **Tensions between safeguarding and commercial viability**

   While we support strong custodial safeguards in principle, we raise concerns about the potential impact of mandatory third-party custody rules on vertically integrated models. Requiring unconnected custodians could limit innovation and disincentivise investment in end-to-end platforms. Particularly, we question whether intra-group affiliates — subject to governance, audit, and structural separation — might satisfy the underlying policy goals without unnecessarily fragmenting operations.

3. **Sustainability of the proposed asset model**

   The regime's tight constraints on eligible reserve assets — combined with the requirement for 100% HQLA holdings — raise concerns about diversification, liquidity optimisation, and long-term issuer sustainability. If interest rates return to record lows, the current business model for stablecoin issuers (which relies in part on yield from reserve assets) may become economically unviable.

GBBC recommends that the FCA consider more flexible approaches to reserve management, including tiered liquidity structures and dynamic reserve modelling. In addition, the current blanket prohibition on passing through any yield to token holders may be overly restrictive, particularly for institutional use cases.

Jurisdictions such as the Abu Dhabi Global Market (ADGM) have adopted more proportionate frameworks. Under ADGM's CP No. 7 of 2024, the regulator explicitly states:

"The FSRA does not propose to prohibit an issuer from accruing and distributing income earned from Reserve Assets to the FRT holder, but it is important to note that an FRT must not be promoted as nor considered to be an investment or a savings product." (para. 22)

GBBC encourages the FCA to take a similarly pragmatic approach — allowing limited yield under strict conditions (e.g. disclosure, non-promotion as an investment) to support commercial viability while maintaining consumer protection.

4. **Operational challenges in the redemption rules**

The D+1 timelines are not achievable and place an excessive reliance on proprietary funds — which in turn could compromise the legal structure of the statutory trust.

5. **Scalability and legal structure of user rights**

The proposal to require direct contractual obligations between stablecoin issuers and end users raises significant legal and operational concerns. Most stablecoin distribution models rely on intermediated structures — including exchanges, custodians, or wallets — rather than direct issuer-to-user relationships. Imposing contractual privity would introduce substantial onboarding burdens, legal complexity, and may conflict with decentralised or non-custodial network architectures. This stands in contrast to the established treatment of electronic money, where agents and distributors may redeem on behalf of users without requiring direct contracts between issuer and holder.

Across these themes, we are supportive of the FCA's objectives but are of the view that the current proposals, taken as a whole, do not offer a workable, proportionate, and internationally competitive framework

Question 1:Do you agree that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying stablecoin issuers are necessary?

The Consumer Duty provides an overarching high-level principles-based framework to ensure the best consumer outcomes.

The cumulative complexity of the regime — spanning capital, custody, redemption, and reconciliation — raises doubts on the real provision of net benefits to users or the market. Instead, it risks driving firms offshore or deterring new entrants, especially as other jurisdictions (e.g. EU under MiCAR) adopt more proportionate approaches. As one member noted, "It's hard to see what benefit you really derive from being onshore."

In our view, the FCA should revisit this topic in its Conduct and Firm Standards consultation with a targeted approach that identifies gaps in the Consumer Duty — building incrementally on the Consumer Duty, with clear thresholds and supervisory flexibility.

Question 2:Do you agree that issuers of multi-currency qualifying stablecoins should be held to similar standards as issuers of single-currency qualifying stablecoins unless there is a specific reason to deviate from this? Please explain why?

GBBC supports, in principle, the application of consistent baseline standards to both single-currency and multi-currency qualifying stablecoins. However, where multi-currency models present distinct operational or risk characteristics, the regime should accommodate appropriate adjustments in scope, supervision, and reporting.

Backing assets are often held in multiple currencies for practical reasons — including liquidity optimisation, cross-border user demand, and risk diversification. Strict currency-matching requirements or inflexible rule application could inadvertently penalise firms operating across jurisdictions and reinforce dependency on a single national banking system.

FX risk linked to multi-currency structures are and should be managed through appropriate internal controls — including hedging, reconciliation policies, and disclosures. GBBC therefore encourages the FCA to uphold a consistent regulatory foundation, while remaining open to technical adjustments where required to reflect the structure and operational model of a given issuer.

Question 3:Do you agree with our proposals for requirements around the composition of backing assets? If not, why not?

GBBC supports the objective of ensuring that qualifying stablecoins are fully backed by high-quality, liquid, and prudently managed reserve assets. However, we consider the proposed approach to backing asset composition to be overly complex, insufficiently aligned with international frameworks, and likely to generate operational inefficiencies without a clear corresponding benefit for end-users or financial stability.

The two-tier structure — separating “core” and “extended” assets, with case-by-case FCA approval required for the latter — appears unnecessarily restrictive. A simpler and more effective model would consolidate both lists into a single category of permitted high-quality liquid assets, subject to clear eligibility criteria and appropriate risk management standards. This would maintain the integrity of the reserve pool while reducing unnecessary administrative friction.

In addition, the requirement that all backing assets must be denominated in the same currency as the stablecoin may limit diversification, increase concentration risk, and tie issuers disproportionately to a single sovereign bond market — in this case, the UK gilt market. Over time, this could introduce liquidity constraints or systemic feedback loops, particularly in low-interest or volatile market environments. Comparable regulatory frameworks (such as MiCAR and the EU CCP collateral rules) do not impose such rigid currency-matching requirements.

While we support the principle that reserve assets must be safe and liquid, we believe the proposed design imposes an unnecessarily narrow and static view of eligible collateral. It may also undermine the commercial viability of stablecoin issuance in the UK, especially when global peers offer more flexible and proportionate models.

We recommend the FCA:

- Consolidate the “core” and “extended” asset categories into a single HQLA list;
- Permit a defined range of additional asset types via supervisory guidance rather than case-by-case approvals;
- Allow limited cross-currency holdings subject to appropriate FX risk management and disclosures.

These changes would simplify implementation, promote international coherence, and maintain the regime’s prudential integrity.

Question 4: Do you have any views on our overall proposed approach to managing qualifying stablecoin backing assets?

Particularly:
i) the length of the forward time horizon;
ii) the look-back period
iii) the threshold for a qualifying error

GBBC supports the policy objective of ensuring that qualifying stablecoin issuers can manage their backing assets in a manner that protects redemption rights and withstands periods of market stress. However, we believe the current approach may be overly complex, operationally burdensome, and in need of further clarification to ensure proportionality and legal certainty.

We have concerns about the practicality of implementing both backward-looking and forward-looking redemption metrics. In particular:

- The required modelling may be difficult to implement where firms have limited redemption history or non-linear user behaviour;
- The forward-looking test is not clearly defined and may rely on assumptions that cannot be reliably validated;
- The underlying metrics and thresholds for what constitutes a “qualifying error” or stress outcome are not specified.

We encourage the FCA to clarify on how to define and escalate material discrepancies or failures. This is especially important for firms seeking to build internal compliance systems without relying on case-by-case supervisory feedback.

The current framework does not appear to account for structural market shifts — such as interest rate changes — that may affect the sustainability of a 100% HQLA reserve model. The current profitability of stablecoin issuers, for example, has benefited from high-yield sovereign instruments. Should this environment reverse, issuers could face capital pressure without alternative liquidity tools.

To that end, GBBC encourages the FCA to explore options such as:

- Tiered liquidity reserves (e.g., a mix of instantly redeemable and short-term high-quality assets);
- Greater supervisory flexibility for firms with strong governance and redemption monitoring systems;
- Risk-weighted guidance rather than a single uniform methodology.

The framework must balance robustness with workability — particularly for firms at different stages of maturity — and avoid creating rigid structures that may prove unsustainable in future market conditions.

Question 5: What alternative ways would you suggest for managing redemption risk, which allow for firms to adopt a dynamic approach to holding backing assets?

GBBC supports the FCA’s openness to exploring alternative, dynamic approaches to managing redemption risk. However, we do not believe the current consultation sufficiently addresses the legal, operational, and prudential implications of the options being considered — particularly where they involve commingling firm funds and trust assets.

In particular, the FCA's informal suggestion that firms might temporarily fulfil redemption requests using proprietary funds raises the prospect of undermining the statutory trust. We are aware of the ongoing debate regarding safeguarded funds and statutory trust and we have similar concerns regarding this issue with respect to this consultation. We consider the 100% HQLA reserve requirement to be economically inefficient and potentially unnecessary where firms can demonstrate well-calibrated risk management frameworks. Generally, we suggest a more flexible approach for issuers to adapt to their particular business model. A more proportionate approach would allow for:

- Tiered liquidity structures, in which a portion of backing assets is held in immediately liquid instruments, while the remainder is allocated to short-dated but slightly less liquid assets (e.g. high-grade commercial paper, repos, MMFs);
- Use of predictive analytics and behaviour-based models to estimate redemption flows, subject to supervisory validation;
- A formalised liquidity buffer model, structured as a prefunded facility, that could absorb day-to-day redemption volatility without requiring continuous over-collateralisation.
- Simplifying requirements for ODDR and BACR
- Discretion to provide token holders a benefit of custodying funds via an incentive or reward and enter into commercial agreements with third parties funded by interest / yield

These tools — some already common in traditional financial sectors — could enhance market efficiency without compromising redemption reliability. GBBC encourages the FCA to explore such models further, potentially via supervised pilots or within a sandbox framework, before prescribing static thresholds that may prove unduly restrictive over time.

Question 6: Do you think that a qualifying stablecoin issuer should be able to hold backing assets in currencies other than the one the qualifying stablecoin is referenced to? What are the benefits of multi-currency backing, and what risks are there in both business-as-usual and firm failure scenarios? How might those risks be effectively managed?

GBBC supports allowing stablecoin issuers to hold backing assets in currencies other than the one to which the stablecoin is referenced.. The consultation proposes restricting reserves to the same currency as the reference asset. We do not believe this approach is necessary, proportionate, or reflective of market realities.

There are strong reasons to permit multi-currency reserve holdings:

- It reduces excessive reliance on the domestic banking and government bond market - a concern noted specifically in the context of GBP-linked stablecoins and the UK banking system.

- It provides operational flexibility and liquidity where stablecoin usage spans multiple jurisdictions or fiat rails.
- It enables firms to construct more diversified and resilient reserve portfolios, mitigating concentration and interest rate risk.

While FX mismatch is a valid risk, it can be effectively mitigated through standard financial tools — including currency hedging, liquidity buffers, and redemption alignment policies. These are common practices in international payments and custody models and can be made subject to FCA expectations through guidance or supervisory review.

Importantly, prohibiting non-GBP reserves for GBP-denominated stablecoins could create unintended consequences, including increased systemic exposure to UK sovereign instruments and constraints on firms operating across currency zones. Such constraints are not found in other UK regulatory regimes (e.g., for CCP collateral or authorised fund holdings), nor are they contemplated under comparable international frameworks.

GBBC therefore recommends that:

- The regime permit backing assets to be held in other major currencies (e.g. USD, EUR), within defined thresholds;
- Issuers be required to implement FX risk controls, including capital buffers or contractual redemption rules that limit mismatch exposure;
- Regulatory disclosure frameworks provide transparency on reserve composition and currency breakdown.

This would preserve the prudential intent of the regime while enabling greater commercial viability and international consistency.

Question 7: Do you agree that qualifying stablecoin issuers should hold backing assets for the benefit of qualifying stablecoin holders in a statutory trust? If not, please give details of why not.

GBBC does not support the mandatory requirement for qualifying stablecoin issuers to hold backing assets in a statutory trust for the benefit of token holders. We are concerned that this approach introduces significant legal and operational complexity, restricts flexibility in business models, and may hinder the development of a competitive UK stablecoin market. The FCA's prudential and consumer protection objectives could be more effectively and proportionately achieved through a flexible framework based on clear safeguarding outcomes.

In our view, the statutory trust model is ill-suited to the range of non-cash reserve assets that may be used in stablecoin backing arrangements. Unlike the CASS 7 client money trust, which applies to a narrow context of cash deposits, the FCA proposal must accommodate a broader spectrum of financial instruments across varying custody structures. Imposing a statutory trust across this diversity introduces legal uncertainty and operational friction.

Furthermore, statutory trusts are not universally recognised in other jurisdictions. Where backing assets are held cross-border, the legal protections intended by the FCA may fail to materialise. In such cases, local courts may disregard the trust, exposing those assets to third-party claims in insolvency or enforcement proceedings. This undermines the FCA's core safeguarding intent.

We also question whether a statutory trust can be validly created in cases where stablecoins are minted but not yet issued to identifiable holders. English trust law requires certainty of intention, subject matter, and beneficiary. If no token holders yet exist, the necessary certainty may not be present, rendering the trust invalid and introducing ambiguity into the safeguarding framework.

In practice, custodians may be reluctant to accept assets subject to an unclear trust arrangement, especially where the beneficiaries are not known or the legal enforceability is in doubt. This could frustrate compliance by issuers and introduce additional counterparty risk.

GBBC therefore recommends that the FCA replace the statutory trust requirement with a principle-based safeguarding obligation modelled on existing regimes. The rules should specify the outcomes that must be achieved, including:

- Backing assets must be held separately from the issuer's own assets;
- Backing assets must be protected, to the extent possible under applicable law, from issuer insolvency and third-party claims;
- Custodial arrangements should be transparent, subject to audit, and governed by contractual terms that establish client priority over the assets.

This approach would be more consistent with the Electronic Money Regulations 2011 and CASS 6, which require segregation and safeguarding but do not mandate a specific legal structure such as a trust. Under EMR 2011, e-money institutions may safeguard relevant funds by segregation or insurance/guarantee mechanisms. CASS 6 similarly requires firms to make adequate arrangements to safeguard client assets without prescribing a particular structure.

We expect that in most cases, custodians operating under English law will use trust structures voluntarily, as is the market standard for CASS 6. However, alternative models — including nominee, orphan, or contractual segregation structures — should remain permissible where they offer equivalent protection, particularly in jurisdictions where trust concepts are not recognised.

The rules should make clear that trusts are one safeguarding method, not the exclusive mechanism. A principle-based requirement equivalent to CASS 6.2.1R would provide issuers and custodians with the flexibility to adopt structures suited to their risk profile, legal environment, and operational model.

If, despite these concerns, the FCA decides to proceed with the statutory trust proposal, we recommend several clarifications:

- Correct the reference in CASS 16.5.1G from "Section 137B(2)" to "Section 137B(1)" of FSMA;
- Provide detailed guidance on how issuers are to fulfil their obligations as trustees, including documentation, oversight, and reporting standards, drawing on CASS 7.11.33A as precedent.

We are also concerned by informal suggestions that issuers may fulfil redemptions using proprietary funds where trust assets are unavailable. Such an approach risks undermining the legal clarity of the statutory trust by introducing ambiguity around the source of funds and the beneficiary relationship. If proprietary funds are used without immediate reconciliation, there is a risk of unlawful commingling between safeguarded and non-safeguarded assets.

To address this, GBBC recommends a distinction between "redemption" — the exchange of a token for cash from the reserve and concurrent token burn — and "buybacks" using proprietary funds. In a buyback, the issuer acquires tokens in the secondary market, holding them as treasury tokens. The total token supply and reserve remain matched, and the legal separation between trust and firm assets is preserved.

In summary, GBBC strongly recommends that the FCA:

- Remove the mandatory statutory trust requirement;
- Replace it with a principle-based safeguarding obligation consistent with EMR and CASS 6;
- Clarify that multiple legally robust structures may be used;
- Distinguish redemptions from buybacks in regulatory language;
- Ensure cross-jurisdictional enforceability is addressed in the safeguarding regime.

These recommendations would support a more resilient, internationally competitive UK stablecoin regime while maintaining high standards of consumer protection and legal certainty.

Question 8: Do you agree with our proposal that qualifying stablecoin issuers are required to back any stablecoins they own themselves? If not, please provide details of why not.

We have no comment on this other than this requirement accommodates for the 'buy back' suggestion in our response to Question 7.

Question 9: Do you agree with our proposal to require third parties appointed to safeguard the backing asset pool to be unconnected to the issuer's group?

GBBC agrees with the FCA's objective of ensuring robust safeguarding arrangements and avoiding conflicts of interest in the custody of backing assets. However, we are concerned that a blanket requirement to appoint only unconnected third-party custodians may impose unnecessary operational constraints and could be inconsistent with other parts of the UK regulatory framework.

In particular, many stablecoin issuers operate within vertically integrated business models, where custody functions are either internalised or provided by affiliated entities within the same group. In such cases, functional independence and risk mitigation can still be achieved through:

- Segregated legal entities with appropriate governance controls;
- Independent audit and assurance of safeguarding practices;
- Structural ringfencing of operational roles and access rights.

There is a meaningful difference between legal affiliation and operational dependency. The FCA's proposal does not appear to distinguish between the two, which may penalise firms that have already invested in strong internal controls. It may also conflict with other FCA-authorised models — such as those under the CASS regime or for centralised exchanges — where intra-group arrangements are permitted with appropriate safeguards.

Moreover, requiring issuers to use only unaffiliated custodians could introduce practical and systemic concerns, including:

- Reduced operational efficiency, particularly in time-sensitive redemption contexts;
- Potential concentration risk, if the pool of eligible custodians proves limited;
- Friction for firms operating across multiple jurisdictions or under existing licensing frameworks.

GBBC recommends that the FCA adopt a more proportionate and risk-sensitive approach:

- Provide more discretion to appropriately regulated backing asset custodians
- Intra-group custody arrangements should be permitted where firms can demonstrate independence through governance, audit, and legal structuring.
- Where affiliation exists, additional transparency requirements (e.g. third-party attestations or reporting to the FCA) can be imposed.
- A one-size-fits-all ban should be avoided, especially for smaller or early-stage firms that may be disproportionately affected.

This would maintain the intended protections while supporting a wider range of operational models and reducing unnecessary barriers to entry.

Question 10: Do you consider signed acknowledgement letters received by the issuer with reference to the trust arrangement to be appropriate? If not, why not? Would you consider it necessary to have signed acknowledgement letters per asset type held with each unconnected custodian?

We are concerned that the proposal for signed acknowledgement letters per asset type is overly prescriptive and may not align with market best practice. Requiring a distinct letter for each asset type could create operational friction and reduce the pool of third-party custodians willing to participate in the regime, ultimately limiting consumer choice.

If such letters are to be required, a single acknowledgement per custodian — covering all applicable asset types — should be sufficient. This would reduce administrative burden while still providing an appropriate level of legal certainty around the safeguarding arrangement.

Question 11: Do you agree with our proposals for record keeping and reconciliations?

GBBC supports the FCA's objective of ensuring that stablecoin issuers maintain timely, accurate, and audit-ready records of their backing asset pools. However, we are concerned that the proposal for daily reconciliations across all asset types and custodians — without further clarification or flexibility — may be operationally unworkable for many firms and misaligned with the diversity of custody models in the market.

We note that the current proposal does not define what constitutes a "daily" reconciliation. Firms operating across jurisdictions and time zones may face reconciliation delays due to:

- Asset settlement cycles that do not align with UK business hours;
- Reliance on third-party custodians or omnibus accounts with end-of-day processing;
- Technological constraints in aggregating on-chain and off-chain data sources.

To address these issues, we recommend that the FCA consider the following enhancements to its proposed framework:

- **Adopt a risk-based approach**: High-frequency reconciliation should be required only where custodians cannot demonstrate real-time or near real-time visibility over reserve holdings. Where ongoing proof-of-assets (e.g. via on-chain tracking or direct feeds) is available, a lower reconciliation frequency may suffice.
- **Enable real-time supervisory access**: The FCA should encourage the use of open APIs or machine-readable data standards to enable continuous access to reconciliation data without requiring manual submission. This would improve supervisory transparency while reducing compliance friction.

  Permit cryptographic proofs as an alternative mechanism: Issuers should be allowed to use cryptographic tools — such as Merkle tree attestations,

zero-knowledge proofs, or anonymised balance verifications — to demonstrate reserve sufficiency and client-level reconciliation without disclosing sensitive proprietary data.
- **Clarify expectations for exception handling**: Additional guidance is needed on how to handle discrepancies (e.g. pending trades or custodian delays), what materiality thresholds apply, and how exception events should be documented and reported.

Without these additions, the current rule risks imposing a uniform operational burden that may be disproportionate for smaller firms, technologically advanced issuers, or those working with compliant but slower custodial infrastructure. We encourage the FCA to adopt a technologically neutral and proportionate framework that preserves the policy objective of robust safeguarding while supporting innovation and implementation at scale.

Question 12: Do you agree with our proposals for addressing discrepancies in the backing asset pool? If not, why not?

GBBC agrees that discrepancies in the backing asset pool must be identified, investigated, and resolved promptly by qualifying stablecoin issuers. However, the current proposal does not provide sufficient clarity on what constitutes a "material discrepancy," nor how firms are expected to differentiate between minor operational variances and issues that warrant regulatory notification.

Without clear materiality thresholds or illustrative criteria, firms may face uncertainty about when to escalate discrepancies. This could lead to either overreporting — including benign reconciliation mismatches caused by timing or settlement lags — or underreporting due to fear of regulatory scrutiny.

We therefore encourage the FCA to:

- Define what constitutes a "material" discrepancy in principle, including whether this relates to size, duration, impact on redemptions, or trust composition;
- Provide examples of discrepancies that do and do not trigger notification obligations;
- Clarify expectations for documenting and resolving minor or transient discrepancies that fall below the threshold for formal reporting.

In line with GBBC's broader recommendations, we also encourage the FCA to consider how technology can support better discrepancy monitoring — including cryptographic reserve attestations or automated reconciliation tools — without imposing excessive manual oversight.

While GBBC does not propose specific thresholds at this stage, we believe that further clarification is essential to ensure consistent application, avoid regulatory ambiguity, and focus supervisory attention on genuinely material risks.

Question 13: Do you agree with our proposed rules and guidance on redemption, such as the requirement for a payment order of redeemed funds to be placed by the end of the business day following a valid redemption request? If not, why not?

GBBC does not support the proposed D+1 requirement for redemption payment orders in its current form. While we agree that timely and reliable redemption is essential, the rule as drafted is operationally unrealistic. We have strong concerns about the feasibility of placing redemption payment orders by the end of the next business day in cases where:

- The redeemer is not previously verified and requires KYC/AML checks;
- Wallet ownership must be confirmed or authenticated;
- Settlement relies on fiat rails with variable processing times;
- Redemptions occur across different time zones or during weekends.

Further clarity is needed on what constitutes a "business day," and whether this refers to UK market hours, the redeemer's jurisdiction, or the issuer's operational framework — a critical ambiguity for internationally active firms.

GBBC recommends that the FCA adopt a more flexible and proportionate approach, including:

- Allowing firms to define operational hours for redemptions in their contractual terms, provided they are consistent with a minimum regulatory standard;
- Recognising that redemption timeframes longer than one business day are necessary.

Redemption certainty remains a core pillar of user confidence. But a rigid D+1 rule risks being counterproductive if it introduces legal ambiguity or drives non-compliance. A flexible, risk-sensitive standard would better align with the practical realities of stablecoin operations and the structure of the statutory trust.

Question 14: Do you believe qualifying stablecoin issuers would be able to meet requirements to ensure that a contract is in place between the issuer and holders, and that contractual obligations between the issuer and the holder are transferred with the qualifying stablecoin? Why/why not?

GBBC does not support the FCA's proposal to require a direct contractual relationship between qualifying stablecoin issuers and each token holder, nor the requirement for such obligations to transfer with the token. We consider this approach to be legally problematic, operationally impractical, and inconsistent with prevailing stablecoin market structures.

In most current stablecoin models — including those deployed by regulated global issuers — the issuer maintains contractual privity only with primary distributors or institutional clients. The vast majority of secondary market users interact with stablecoins through intermediaries such as exchanges, custodians, or wallets. These intermediaries hold the contractual relationship with the user, and redemption generally occurs through wholesale channels or via market liquidity, not direct settlement with the issuer.

Imposing a requirement for stablecoin issuers to have a direct contract with all downstream holders — potentially numbering in the millions — would:

- Require issuers to conduct full KYC/AML onboarding for every user, which is inconsistent with current distribution practices;
- Introduce significant compliance costs and friction that are not proportionate to the risk posed;
- Create legal uncertainty around how contractual obligations would be transferred with the token in real time, particularly across decentralised or peer-to-peer transfers.

This proposal also risks conflating stablecoins with deposit-taking or e-money models, which involve fundamentally different user expectations, rights, and legal treatment. GBBC strongly advises against constructing a regime that would require stablecoin issuers to assume the same kind of bilateral, account-based obligations as deposit institutions.

A more workable approach would be to:

- Consider subscribers accepting terms of service in an appropriate contract, as is standard in many jurisdictions.
- Permit contractual obligations to be established at the distribution layer (e.g., between users and exchanges or wallets), with appropriate flow-down obligations and disclosures from the issuer;
- Allow issuers to offer direct redemption services only to whitelisted or pre-approved parties, without imposing full contractual privity across all token holders;
- Clarify in regulation or guidance that contractual terms do not need to attach to the token itself, but can instead be referenced through terms of use or platform-level agreements.

This would preserve user protection while aligning the legal framework with operational realities and the decentralised structure of token markets. GBBC urges the FCA to reconsider this proposal and avoid introducing requirements that would be incompatible with current global practices.

Question 15: Do you agree with our proposed requirements for the use of third parties to carry out elements of the issuance activity on behalf of a qualifying stablecoin issuer? Why/why not?

We understand the intention behind the proposed requirements for third-party involvement in the issuance process. However, we encourage the FCA to take into account the business model, technological design, and functional role of the third party when applying these rules. Prescriptive requirements that do not reflect the operational realities of decentralised or modular systems may limit innovation or prove impractical in certain contexts.

Question 16: Do you agree with our proposals on the level of qualifications an individual needs to verify the public disclosures for backing assets? If not, why not?

GBBC supports the objective of ensuring that public disclosures are verified by appropriately qualified professionals. However, we recommend that the FCA clarify the scope and purpose of the verification requirement and consider the availability of qualified individuals in the market. We further propose that the FCA explicitly permit alternative mechanisms, including cryptographic attestations or on-chain proof systems, where they offer equivalent assurance. However, in our discussions with the industry, concerns were raised regarding both the availability of suitable professionals and the cost implications of such a requirement.

It was noted that, in other sectors (e.g. payment services), the market for qualified auditors and verification agents took time to develop and initially created compliance bottlenecks. The FCA should consider the maturity of the market when phasing in this requirement, particularly for smaller or new entrants.

Moreover, we question whether the proposed model adequately accommodates on-chain verification frameworks and decentralised attestation systems. The FCA should clarify whether alternative mechanisms — including cryptographic attestations and automated proofs — may be used where they offer equivalent assurance to traditional third-party verification.

It should also be clarified as to whether verification is intended to confirm accuracy, completeness, or prudential adequacy. The role and liability of the verifier should be clearly defined.

Question 17: Do you agree with our proposals for disclosure requirements for qualifying stablecoin issuers? If not, why not?

GBBC supports transparency in the issuance of fiat-backed stablecoins but identifies several areas where the disclosure regime requires refinement to ensure coherence and operational effectiveness.

In particular, there is a disconnect between issuer disclosure obligations and custodian recordkeeping requirements. Cryptoasset identifiers such as the Digital Token Identifier (DTI) are referenced in the recordkeeping proposals (see Q20) but are omitted from issuer disclosure requirements. GBBC recommends that issuers be required to disclose a stablecoin's unique identifier, such as the DTI, at the point of issuance to ensure consistency and interoperability across the market.

Incorporating the DTI into issuer disclosures would enhance the accuracy and comparability of information available to users and regulators. It provides a standardised mechanism for identifying stablecoin implementations across multiple ledgers and is already in use for similar purposes in other jurisdictions. While we understand that the broader disclosure framework may evolve through future consultations, the inclusion of DTI should be prioritised as a foundational element of the regime.

Question 18: Do you agree with our view that the Consumer Duty alone is not sufficient to achieve our objectives and additional requirements for qualifying cryptoasset custodians are necessary?

In our view, the FCA should revisit this topic in its Conduct and Firm Standards consultation with a targeted approach that first identifies gaps in the Consumer Duty in relation to its statutory objectives under FSMA, and then considers whether building incrementally on the existing Duty — with clear thresholds and supervisory flexibility — would more effectively support safe, innovation-friendly growth in the UK stablecoin sector.

Question 19: Do you agree with our proposed approach towards the segregation of client assets?

We welcome the FCA's proposed approach to safeguard client assets through segregation of assets. We generally agree with the approach, but custodians should be given appropriate flexibility to choose an approach. Encourage development of digital IDs and would not interfere with omnibus structure\.

Another area that warrants explicit consideration is the treatment of cryptoasset forks by custodians.

Forks are a recurring phenomenon in the crypto industry, either through upgrades to the underlying software or a contentious split of the network, leading to the creation of new tokens or changes in the underlying protocol. The FCA's current proposal does not explicitly address the obligations of a custodian when such an event occurs. This poses significant risks to consumer protection, such as uncertainty of access to the tokens on the new network, questions about ownership and potential conflicts of interest.

Recommendation: We suggest the FCA propose specific rules detailing how custodians must handle cryptoasset forks. These provisions should, at a minimum, address the following:

1. **Notification Requirements:** Custodians should be required to promptly notify clients of upcoming or realised forks that affect the assets that they custody, providing clear and concise information about the implications, including whether the custodian will

continue to support the new network or whether the assets will be converted into other assets.

2. **Default Position for New Tokens:** We believe that the rules should establish a clear default position that any new tokens created as a result of a fork belong to the client whose original assets were held in custody. Without clear rules, clients may be unsure of their rights to new tokens created as a result of a fork.
3. **Distribution of New Tokens:** Custodians should be obligated to facilitate the distribution of new tokens to clients in a timely and transparent manner, or provide clear information for clients to claim them independently if direct distribution is not feasible.
4. **Policy Disclosure:** Custodians should be required to clearly disclose their policy and procedures for handling crypto-asset forks in their client agreements and public documentation.
5. **Liability Framework:** Forks can present complex technical and operational challenges. The rules should clarify the custodian's liability in cases where tokens are lost, inaccessible, or unduly withheld due to inadequate fork management. Clear regulatory guidelines should encourage custodians to develop robust internal policies and procedures for handling forks, ensuring the secure and timely distribution of any new assets to clients.

Question 20: Do you agree with our proposed approach towards record-keeping? If not, why not? In particular, do you foresee any operational challenges in meeting the requirements set out above? If so, what are they and how can they be mitigated?

We agree that high-quality recordkeeping is essential to maintaining custody integrity. However, there are concerns regarding the lack of standardisation in how cryptoassets are to be identified.

The current proposal allows for records to include either a name or an identifier, which could result in inconsistent practices and undermine interoperability. GBBC recommends that the FCA mandate the use of ISO-standard identifiers, such as the Digital Token Identifier (DTI), as a minimum recordkeeping requirement. This would ensure consistency across custodians, reduce supervisory friction, and future-proof the regulatory framework as digital asset volumes grow. Human-readable names may supplement but should not replace standardised identifiers. Forks and network upgrades will also affect identifiers. Custodians should be required to maintain records of asset lineage and update identifiers accordingly. Custodians should be allowed to use blockchain technologies and distributed ledgers for record-keeping.

Question 21: Do you agree with our proposed approach for reconciliations? If not, why not? In particular:

i. Do you foresee operational challenges in applying our requirements? If so, please explain.

ii.Do you foresee challenges in applying our proposed requirements regarding addressing shortfalls? If so, please explain.

The proposed daily reconciliation requirement appears more onerous than existing obligations under the CASS regime, and the consultation provides no clear justification for this level of regulatory divergence.

Reconciliation across multiple networks, custodians, and instruments is operationally complex, particularly in cross-chain environments. Existing TradFi rules generally do not require daily reconciliation, and imposing it here could create disproportionate compliance burdens.

GBBC recommends that the FCA:

- Align reconciliation frequency with the CASS regime unless there is a clear rationale for divergence;
- Define what constitutes a material shortfall;
- Provide guidance on handling temporary discrepancies or delays;
- Clarify expected escalation and remediation processes.
- Allow for flexibility in the way information is stored, assuming all requirements are met, and in the treatment of excesses.

Question 24: Do you agree with our proposed approach to liability for loss of qualifying cryptoassets? In particular, do you agree with our proposal to require authorised custodians to make clients' rights clear in their contracts?

We generally agree that custodians should be required to clarify client rights in their contracts. We also agree custodians not required to provide full, uncapped liability in the event of a loss that was not within custodial control (ie. hack, malfunction, etc). However, the proposed liability model risks functioning as a de facto insurance obligation, including in cases where the custodian bears no operational fault.

GBBC recommends that liability be framed in proportion to the custodian's operational control and fault. Additional guidance may be needed on the treatment of force majeure events, protocol-level failures, and the scope of indemnities in multi-party custody chains.

Question 25 : Do you agree with the requirements proposed for a custodian appointing a third party? If not, why not? Do you consider any other requirements would be appropriate? If not, why not?

GBBC broadly supports the principle that primary custodians should remain responsible for outsourced custody arrangements. This is consistent with the FCA's general approach to outsourcing.

However, there are questions regarding how liability and oversight should operate in multi-hop custody chains, particularly where smaller firms rely on third-party vaulting or infrastructure providers. GBBC recommends that the FCA:

- Clarify how oversight obligations apply across sub-custodian tiers;
- Ensure that requirements do not inadvertently exclude smaller providers;
- Allow for appropriate contractual delegation, with clear expectations on monitoring and disclosure.
- Allow for flexibility in the amount of information given third-parties may be unwilling to make public certain contractual points or specific business information.